

Message Text

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ACTION TRSE-00

INFO OCT-01 ARA-16 ISO-00 EB-11 L-03 SS-20 NSC-07 AGR-20

CIAE-00 COME-00 INR-11 LAB-06 NSAE-00 RSC-01 SP-03

STR-08 SWF-02 CIEP-03 FRB-03 OMB-01 SSO-00 NSCE-00

INRE-00 DRC-01 /117 W

----- 126226

O R 311600Z AUG 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 5359

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 1 OF 2 BRASILIA 6636

PASS TO TREASURY SECRETARY SIMON FROM THE AMBASSADOR

E. O. 11652: N/A

TAGS: ETRD, EFIN, BR

SUBJECT: COUNTERVAILING DUTY: BRAZILIAN FOOTWEAR

1. BRAZILIAN GOVERNMENT HAS APPARENTLY LEARNED THROUGH THE LAWYER FOR THE SHOE EXPORTERS, HEMMENDINGER, THAT A DECISION ON THE COUNTERVAILING DUTY ISSUE WILL BE MADE NEXT WEEK (WEEK OF SEPTEMBER 1). FRANCISCO DORNELLES FROM THE FINANCE MINISTRY CALLED FINANCIAL ATTACHE AFTERNOON AUGUST 30 TO REPORT THAT HE HAD LEARNED FROM HEMMENDINGER, WHO REPORTEDLY TALKED TO TREASURY OFFICIALS, THAT A DECISION WOULD BE COMMUNICATED CONFIDENTIALLY TO THE BRAZILIAN EMBASSY IN WASHINGTON ON TUESDAY, SEPTEMBER 3, THAT A NOTICE WOULD BE PUBLISHED IN THE FEDERAL REGISTER ON SEPTEMBER 6, THAT THE ANNOUNCEMENT WOULD APPEAR IN THE CUSTOMS BULLETIN ON SEPTEMBER 18, AND THAT THE DUTY WOULD GO INTO EFFECT ON OCTOBER 18. HEMMENDINGER ALSO REPORTED TO BRAZILIAN FINANCE MINISTRY OFFICIALS THAT HE HAD CONCLUDED FROM HIS MEETING AT TREASURY THAT THE DECISION WOULD INVOLVE A DOUBLE RATE, ONE JUST UNDER 5 PERCENT AND THE LIMITED OFFICIAL USE

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OTHER AROUND 7 PERCENT.

2. AS HE HAD DONE TWO DAYS AGO (BRASILIA 6551), DORNELLES AGAIN REGISTERED THE VERY STRONG OPPOSITION OF HIS MINISTRY TO A DOUBLE RATE APPROACH, AND ASKED WHETHER THERE WAS ANY POSSIBILITY OF HAVING TREASURY RECONSIDER ITS POSITION.

3. AFTER HAVING DISCUSSED THE PENDING DECISION WITH FINANCE MINISTER SIMONSEN, DORNELLES CALLED A SECOND TIME TO REPORT THE MINISTER'S REACTION. SIMONSEN REPORTEDLY TOLD HIM THAT THE FINANCE MINISTRY ACTED IN GOOD FAITH IN COOPERATING FULLY WITH U.S. OFFICIALS DURING THE INVESTIGATION, THAT HE (SIMONSEN) HAD TOLD THE AMBASSADOR AT THE TIME THE DATA ON THE SAMPLE OF TWELVE FIRMS WAS DELIVERED THAT HE HAD HOPED OUR DECISION WOULD BE BASED ON THE RESULTS OF THE EXERCISE AND THAT HE HAD EVERY CONFIDENCE THAT HIS VIEWS HAD BEEN TRANSMITTED TO SECRETARY SIMON (SEE BRASILIA 5513).

4. WE NOW UNDERSTAND FROM ARY PINTO, CHIEF, INTERNATIONAL DIVISION, MINISTRY OF FINANCE, THAT HE HAS TRANSMITTED TO DEPUTY ASSISTANT SECRETARY SUCHMAN BY PHONE THE CONCERNS OF THE GOB AS DESCRIBED ABOVE. PINTO SAID THAT HE HAD CALLED TREASURY DIRECTLY BECAUSE IT HAS BEEN HIS EXPERIENCE THROUGH THE MANY YEARS OF WORKING WITH THE USG THAT WASHINGTON AT TIMES SCEPTICAL OF EMBASSY REPORTING OF HOST GOVERNMENT CONCERNS OF THIS KIND.

5. COMMENT: WE ARE SATISFIED THAT A DECISION INVOLVING A DOUBLE RATE WOULD BRING FORTH A CONSIDERABLY STRONGER NEGATIVE REACTION FROM THE GOB THAN WOULD THE IMPOSITION OF A SINGLE RATE. THIS REACTION WOULD EXTEND TO THE FINANCE MINISTRY, WHICH WAS MOST COOPERATIVE DURING THE INVESTIGATION AND WHICH HAD ACCEPTED THE INEVITABILITY OF A COUNTERVAILING DUTY GRACEFULLY. NOW SHOULD A DOUBLE RATE BE ANNOUNCED, AND SHOULD, AS IS LIKELY, THIS CAUSE POLITICALLY EMBARRASSING PROBLEMS FOR THE GOB (THE SMALLER EXPORTERS ARE EXPECTED TO PROTEST VIGOROUSLY THE HIGHER RATE APPLICABLE TO THEM), THE POSITION OF FINANCE MINISTER SIMONSEN VIS-A-VIS HIS COLLEAGUES IN THE GOVERNMENT WHO HAVE WANTED TO TAKE A HARD LINE WOULD BE UNDERMINED. THIS WOULD BE MOST UNFORTUNATE. SIMONSEN IS A GOOD AND HELPFUL FRIEND OF THE UNITED STATES. SHOULD HE LOSE FACE
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WITH HIS COLLEAGUES, SOME OF WHOM, AS WASHINGTON KNOWS, CONSIDER HIM "SOFT" ON THE DUTY QUESTION, OVER THIS ISSUE WE MAY WELL FIND IT DIFFICULT IN THE FUTURE TO GET HIS COOPERATION ON ISSUES MORE IMPORTANT TO OUR INTERESTS.

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STR-08 SWF-02 CIEP-03 FRB-03 OMB-01 SSO-00 NSCE-00

INRE-00 DRC-01 /117 W

----- 126211

O R 311600Z AUG 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 5360

INFO AMCONSUL RIO DE JANEIRO

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PASS TO TREASURY SECRETARY SIMON FROM THE AMBASSADOR

6. WE HAVE NOW BEEN DEALING WITH THIS PROBLEM FOR MANY MONTHS, AND THROUGHOUT THIS PERIOD THIS MATTER HAS BEEN A CONSTANT IRRITANT IN OUR RELATIONSHIP WITH BRAZIL. WE BELIEVE THAT BY IMPOSING A DOUBLE RATE WE WOULD CAUSE THE PROBLEM TO REMAIN ALIVE FOR SOME TIME TO COME, SINCE PRESUMABLY WE WOULD NEED TO CONSULT PERIODICALLY WITH THE GOB OVER THE CLASSIFICATION OF EXPORTERS. SUCH A SITUATION WOULD VERY PROBABLY HAVE AN ADVERSE EFFECT IN OUR OTHER DEALINGS WITH THE GOB WHOSE SUPPORT WE WILL NEED IN THE FORTHCOMING TRADE NEGOTIATIONS AND ON OTHER ISSUES AFFECTING OUR RELATIONSHIPS WITH THIS HEMISPHERE. TAKING THESE CONSIDERATIONS INTO ACCOUNT AND NOTING ALSO THAT, FROM THE PERSPECTIVE OF BRASILIA, AT LEAST, IT WOULD APPEAR THAT THE ADVANTAGES IN THE U.S. (I.E., IN THE CONGRESS AND THE DOMESTIC INDUSTRY) OF A DOUBLE RATE ARE MINIMAL WHEN COMPARED TO THE COSTS HERE, WE STRONGLY SUGGEST THAT IN TERMS OF OUR OVERALL RELATIONS WITH BRAZIL IT WOULD BE DISTINCTLY PREFERABLE TO ANNOUNCE A SINGLE RATE AND PUT THIS PROBLEM BEHIND US.

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7. WE ARE ALSO DISTURBED BY THE PROCEDURES, AS DESCRIBED, FOR NOTIFYING THE GOB. AS THE DEPARTMENTS OF STATE AND TREASURY KNOW, WE HAVE EXPECTED THAT THE AMBASSADOR WOULD (A) NOTIFY THE FOREIGN MINISTER OF THE DECISION AND (B) DELIVER A LETTER FROM SECRETARY SIMON TO SIMONSEN TRANSMITTING THE DECISION AND ITS JUSTIFICATION. WE STILL CONSIDER THIS PROCEDURE THE ONE THAT IS BEST IN KEEPING WITH THE GENERAL NATURE OF OUR RELATIONS WITH BRAZIL AND THE IMPORTANCE OF THE QUESTION TO THE GOB. GIVEN THE VALUE THAT SIMONSEN ATTACHES TO HIS RELATIONS WITH SIMON, THE LETTER IS ESSENTIAL.

8. IN ANY EVENT, THE EMBASSY NEEDS, IN RESPONSE TO ITS REPEATED REQUESTS, AUTHORITATIVE INFORMATION FROM WASHINGTON ON THE CURRENT STATE OF PLAY. WE ARE FULLY AWARE THAT THE INFORMATION FROM THE GOB VIA HEMMENDINGER MAY BE INACCURATE OR INCOMPLETE, BUT IN THE TOTAL ABSENCE OF USG INFORMATION, WE CAN ACT ONLY ON WHAT THE GOB PROVIDES. CRIMMINS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, FOOTWEAR, COUNTERVAILING DUTIES
Control Number: n/a
Copy: SINGLE
Draft Date: 31 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: martinml
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BRASIL06636
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740242-0937
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974081/aaaaaath.tel
Line Count: 190
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: martinml
Review Comment: n/a
Review Content Flags:
Review Date: 12 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 SEP 2002 by rowelle0>; APPROVED <05 MAR 2003 by martinml>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COUNTERVAILING DUTY: BRAZILIAN FOOTWEAR
TAGS: ETRD, EFIN, BR, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005